

Commodity Spotlight



Good Weather Nets Abundant Citrus Crops in 1997/98

U.S. consumers should find ample supplies of citrus fruits and juices in supermarkets this season. The bountiful supplies are due largely to excellent orange crops in both Florida and California. U.S. orange production is forecast record-high at 14.3 million tons, up 12 percent from last year due to favorable weather in Florida and California. In addition, bearing orange acreage in Florida has been expanding ever since growers replanted trees following several freezes in the 1980's. The average state yield continues to increase as these trees mature.

The large citrus crop will likely keep grower and retail prices for most citrus and citrus products at or below year-earlier levels well into the summer. The bulk of fresh citrus fruits are marketed from late fall through spring in the U.S.

The U.S. is the second-largest producer of oranges and total citrus fruit in the world, accounting for 19 and 17 percent of world production in 1997. Florida's orange production is forecast record-high this year, and should more than double the size of the freeze-damaged Florida crops of the early to mid-1980's. In addition, growers in California (the largest supplier of oranges to the U.S. fresh market) are har-

vesting their largest orange crop since the 1982/83 season.

Florida's early and mid-season varieties such as Hamlins (early), Parson Browns (early), and Pineapple Oranges (mid) were abundant from October through February, as were navel oranges from both California and Florida. Larger (than previous year) supplies of Valencia oranges (a late-season variety) will be available from Florida this spring and from California through late summer.

The record supply of oranges has pushed down grower and retail prices below year-earlier levels. The preliminary January grower price for oranges was \$2.58 per box, 35 percent lower than a year ago. The January retail price for fresh navel oranges was 53 cents per pound, just slightly below a year ago. Both grower and retail prices for fresh-market oranges have risen since last fall, suggesting a strengthening of demand, possibly due to improved quality. However, as summer approaches, retail prices for fresh oranges are likely to again fall below year-earlier levels as large supplies of Valencia oranges hit the market beginning in May or June.

Although weather patterns induced by El Niño have left their mark on much of the country this winter, citrus production in the U.S. has encountered few problems. For the most part, California's citrus crop has escaped damage. And despite record rain-falls in much of Florida, the citrus crops suffered little or no damage, although standing water impaired harvest at times.

Record Juice Output Forecast in 1997/98

The large orange crop will also mean ample supplies for juice processors in the U.S. this year. Most orange juice processing takes place in Florida, where about 95 percent of the crop is typically processed into juice (in California, 25 percent or less of the crop is processed). During the 1996/97 processing season (December-November), Florida accounted for 95 percent of all orange juice produced in the U.S., with California, Texas, and Arizona accounting for the rest. With this year's forecast of juice yield (i.e., pounds of sugar solids per box of oranges) just slightly less than a year ago, the 12-percent increase in orange production should lead to record orange juice production.

In addition to a record orange crop in the U.S., estimates from Brazil—the world leader in orange (36 percent) and total citrus (25 percent) production in 1997—indicate that the 1997/98 marketing-year orange crop (July-June) will be up 12 percent from a year earlier. Other major producers of oranges are Mexico (5 percent of the world total), Spain (3 percent), and Italy (3 percent).

Brazil is the world leader not only in orange production, but also in production and exports of orange juice (the U.S. is second). While the expanding U.S. juice supplies will likely limit U.S. imports from Brazil, increased production in both countries will likely stiffen competition in export markets. Through the first half of the Sao Paulo (Brazil) orange juice marketing season (July-December), U.S. imports of Brazilian juice were down 31 percent from a year earlier. Total U.S. exports of orange juice during the same time period were also down 8 percent from a year earlier, reflecting increased competition from Brazil in the world market.

Commodity Spotlight

However, the U.S. export pace is expected to pick up in the coming months as Brazilian supplies decline and U.S. supplies increase seasonally. U.S. orange juice exports are forecast at a record 120,000 metric tons (65 degrees Brix) in 1997/98 (December-November), up 15 percent from 1996/97. Increased demand for high-quality single-strength orange juice and strong marketing efforts by U.S. companies have boosted exports each year since 1993/94.

Much of the competition for export markets occurs in Western Europe, which is typically the major export market for both Brazilian and U.S. orange juice. During the 1996/97 U.S. marketing year (December-November), the U.S. exported 55,000 metric tons to Western Europe, a 34-percent increase from the previous crop year. Western European countries accounted for 52 percent of U.S. orange juice exports during the 1996/97 marketing year, up from 44 percent in the previous year.

Imports of juice to the U.S. are expected to account for about 10 percent of supply, down from a peak of 37 percent in the mid-1980's when U.S. output was down sharply. Despite more-than-adequate domestic production, the U.S. continues to import some juice (primarily from Brazil) for blending purposes, particularly at the beginning of the U.S. season when oranges are less mature and the juice lacks sufficient color or sweetness.

FCOJ Futures Prices Stage Modest Recovery

Although Brazilian frozen concentrated orange juice (FCOJ) stocks were not excessively large at the beginning of the Brazilian processing season (July 1997), they have increased significantly since then. Stocks are expected to remain fairly high into Brazil's next harvest, which will begin in May or June. Meanwhile, Florida's FCOJ stocks at the beginning of the Florida processing season (December 1997) were estimated to be over one-quarter larger than a year earlier.

Despite large crops and significant stocks of FCOJ available in both countries, near-term futures contract prices for FCOJ on the New York Cotton Exchange rebounded to 97 cents per pound solids (as of

Despite Large FCOJ Supplies, Retail Prices Firm in 1997

Retail prices for frozen concentrated orange juice (FCOJ) stayed high throughout most of 1997, despite a record 1996/97 orange crop in Florida that produced record orange juice supplies. In 1997, while both Florida grower prices and near-term futures prices sank to very low levels, retail prices did not decline until the end of the year, about 12 months after grower and futures prices declined. Usually, retail prices track these other prices fairly closely, with a lag of only a few months.

As a result of the basically unchanged retail prices, FCOJ consumption did not expand, leaving end-of-year stocks high. Modest demand coupled with high production in 1996/97 resulted in FCOJ stocks reaching their highest level in years. While retail prices have dropped some since last fall, the decline probably is not sufficient to effectively reduce this year's ending stocks, especially in light of another record crop and juice production year expected for 1997/98. As a result, another stock buildup is expected at the end of this season.

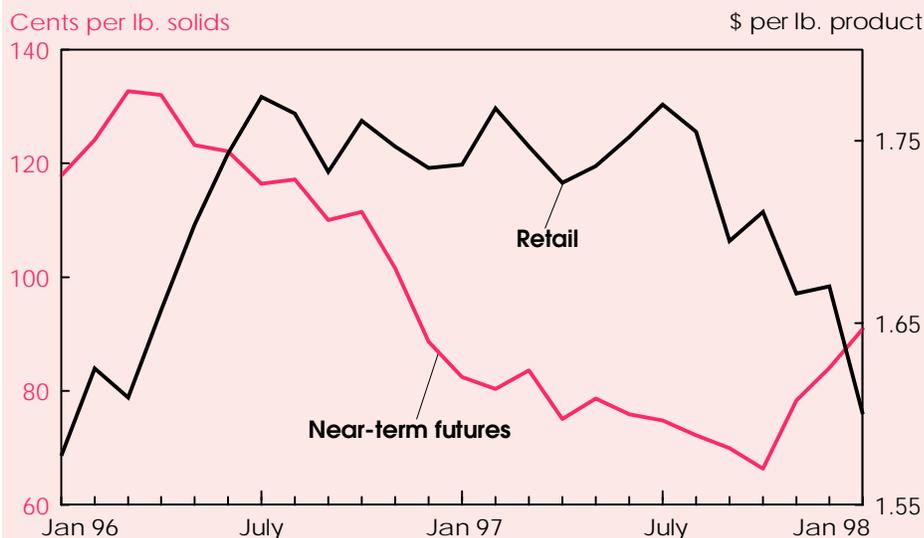
There is no real consensus in the orange juice industry as to why FCOJ retail prices did not decline in response to large supplies. One possibility could be the increased popularity of ready-to-consume orange juice, particularly not-from-concentrate juice. Aided by frequent advertising promotions throughout the year, consumers have been changing their preferences for single-strength over FCOJ. For the convenience of purchasing juice ready to consume, many consumers seem willing to pay a higher price.

In response to the growing popularity of ready-to-consume orange juice and its fairly stable price throughout the year, processors and retailers may have focused more on promoting this kind of orange juice versus FCOJ. Because not-from-concentrate juice tends to be a price leader, the average retail price of FCOJ may not have responded as rapidly to supply changes as in the past.

Susan Pollack (202) 694-5251

pollack@econ.ag.gov

Retail FCOJ Prices Were Slow to Track Futures Prices

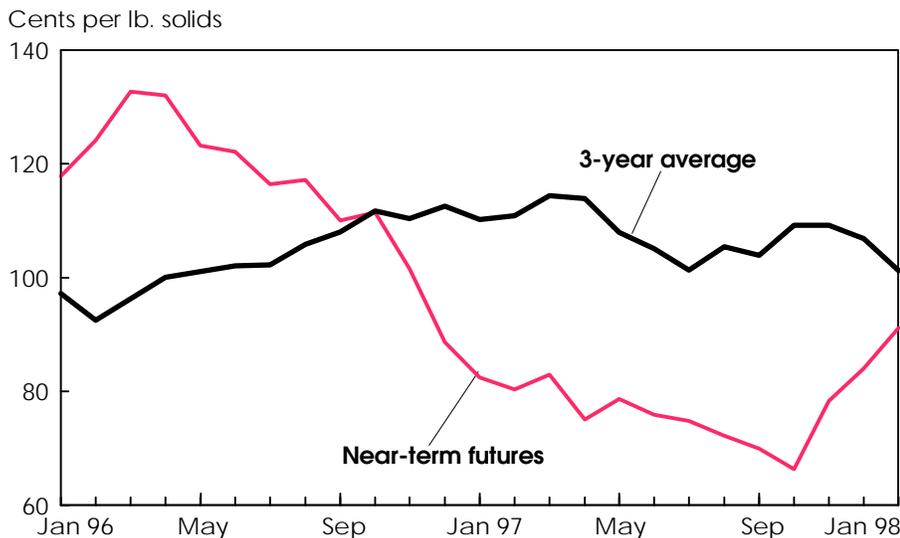


FCOJ = Frozen concentrated orange juice.

Economic Research Service, USDA

Commodity Spotlight

FCOJ Futures Prices Rebound Close to 3-Year Average



FCOJ = Frozen concentrated orange juice.
Economic Research Service, USDA

February 18) since they bottomed out at 67 cents on October 13, 1997 (the lowest near-term contract price for FCOJ since February 9, 1993). After a little more than a year of mostly below-average near-term contract prices, the market has risen to approach average prices since mid-January 1998.

The recent rise in futures prices is due partly to early, unofficial reports that the 1998/99 Brazilian orange crop could be down significantly. Another possible reason is growing confidence in world demand for orange juice and the ability of producers to market their products. Although season-ending stocks have risen for 2 consecutive years in Florida, total domestic consumption is forecast record-high. If orange juice marketers can continue to expand consumption through product differentiation and competitive pricing, FCOJ prices may be able to hold at or rise above recent levels.

Grapefruit Prices See Downward Pressure

Much like U.S. orange growers, grapefruit producers find themselves with another large crop this year, although nearly 6 percent smaller than a year ago. Supplies remain abundant and as a result, prices have dropped and grower revenues have shrunk. Growers in Florida, accounting

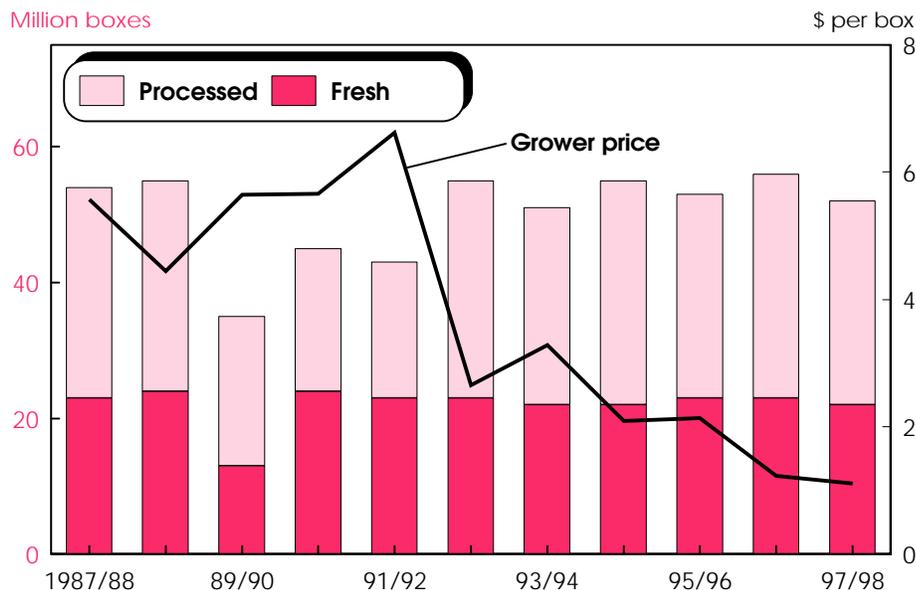
for about 80 percent of U.S. grapefruit production, have been hurt the most by declining revenues. After several years of poor returns to growers (often below production costs) caused by strong supplies and stagnant demand, the Florida grapefruit industry is now pondering supply control options.

Grapefruit bearing acreage and production in Florida peaked in 1996/97 as growers harvested fruit from over 139,000 acres, up 35 percent from the 1989/90 season. However, unlike the orange industry in Florida, the grapefruit industry has realized little growth in demand for fresh product or juice since expansion of acreage by both industries following the freezes in the 1980's. For grapefruit, the gain in bearing acreage has led to a 56-percent increase in production, but not without a huge collapse in prices and returns to growers. During the 1996/97 season, on-tree returns to grapefruit growers were less than 25 percent of the level in 1989/90.

The collapse in prices and returns is also due to stagnant processor demand for grapefruit. Grapefruit juice inventories have remained fairly high, and processors have drastically reduced the prices they offer growers for raw product. Unless there is a dramatic increase in demand for grapefruit, low or negative returns to growers are likely to continue until either grove abandonment or supply management takes place.

In addition to fresh oranges and grapefruit, supplies of lemons, tangerines (such as clementines from Spain), and other

Florida Grapefruit Prices Down As High Production Continues



Box = 85 lbs. 1997/98 forecast.
Economic Research Service, USDA

Commodity Spotlight

Supply Control Ahead for Florida Grapefruit?

No formal supply control program will be put in place this season for Florida grapefruit. In the only formal action taken thus far, the Florida Citrus Commission (FCC) voted in November 1997 to amend the Citrus Stabilization Act to allow language that authorizes supply management. This proposal will be given to the Joint Citrus Industry Legislative Committee and, if approved, will be presented to Florida legislators for action this spring. If passed into law, the FCC would then have the authority to pursue a referendum to allow growers to vote on a grapefruit supply control program for future seasons.

If a program is approved, the FCC would most likely use an allotment plan to limit Florida grapefruit production over a 5-year period. The FCC would appoint a panel of member growers from different growing districts to establish a production base for the industry and for individual operations. Grower allotments would then be derived based on utilization numbers from the previous 5 seasons. Growers would harvest no more than their allotment amount, unless they purchased part or all of an allotment from another grower.

Another supply control option being explored could be accomplished through the Citrus Administrative Committee (CAC). The CAC is currently evaluating the process needed to add supply control language to the current Florida grapefruit marketing order. In this situation, volume control would take place at the packinghouse level. Plans at both the grower and packinghouse levels would aim to match supply with demand so that prices return some profit to growers more quickly than if marketings proceeded without regulation.

citrus are also generally abundant. U.S. lemon production for the 1997/98 season is up 9 percent from a year ago, and prices are sharply lower. The preliminary January grower price was nearly 60 percent below a year ago. Quality from both

California and Arizona has been reported as mostly fair to good, but demand has been somewhat lagging—shipments are only about 4 percent ahead of last year's pace. However, the strongest portion of the shipping season begins in March, and

grower prices typically begin to rise into the summer as seasonal demand picks up. With increased production, and early-season movement lagging, somewhat, consumers will find abundant supplies of fresh lemons this spring and summer.

Although U.S. production of tangerines, tangelos, and temples has declined this year, size and quality are mostly average or better. Demand for tangerines has been moderately strong, with grower prices averaging higher than a year ago in December and January.

Imports from Spain of clementines, a fruit slightly smaller than a typical U.S.-grown tangerine, appear to be up this year—the result of a good crop and expanding markets. Clementines are marketed primarily along the East Coast of the U.S., but markets are slowly expanding to the South and Midwest as well. Clementines are generally marketed in the U.S. from October to March, providing early-season competition for U.S.-grown tangerines. Despite this year's smaller U.S. crop, early-season grower prices (October-November) for U.S. tangerines were below last year before rebounding in December.

Charles Plummer (202) 694-5256
cplummer@econ.ag.gov 

Watch *Agricultural Outlook* for . . .

The role of trade in U.S. horticulture

The impact of El Niño on crop production